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Building More and Better Jobs: Lessons from the United States

Randall W. Eberts

W.E. Upjohn Institute for Employment Research, eberts@upjohn.org

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Building More and Better Jobs: Lessons from the United States

Authors

Randall W. Eberts, *W.E. Upjohn Institute for Employment Research*

Upjohn Author(s) ORCID Identifier

 <https://orcid.org/0000-0002-9711-5466>

Plenary Session I: **BUILDING MORE AND BETTER JOBS** *Lessons from the United States*

Building Quality Jobs in the Recovery
Dublin Castle, Ireland
13-14 September 2011

Randall W. Eberts
W.E. Upjohn Institute for Employment Research

US Needs More Jobs

- Stimulate economy & strengthen the recovery
- Return the long-term unemployed to work
- Revive the housing market
- Provide jobs for the next generation of workers
- Reduce federal & state deficits and federal debt
- Similar in many European countries
- US needs: 125,000/month to stay even
320,000/month to close gap in 5 years

Job Creation and Worker Re-entry Strategies

Demand Side

- Stimulate general demand
 - Tax cuts
 - Spending stimulus
- Target jobs
 - New hires tax credits
 - Subsidize labor costs
- Directly create jobs
 - Public works
- Encourage self-employment
 - UI benefits
 - Tax credits

Supply Side

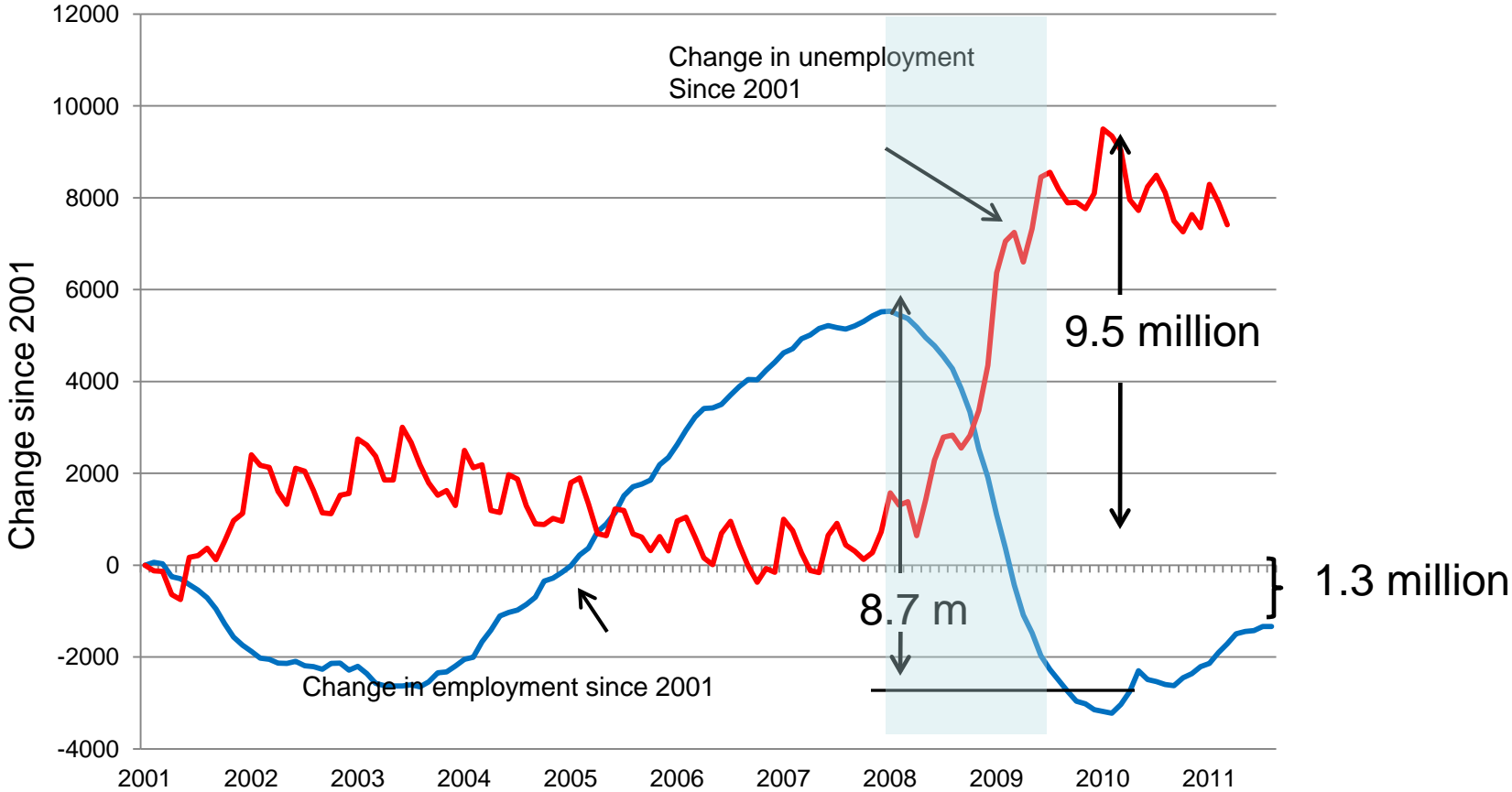
- Skills training
 - OJT
 - Internships
 - Apprenticeships
- Enhanced job search assistance
- Work-sharing
- Wage subsidies to employees
 - Wage insurance
- Reemployment bonus

Current Challenges

- More than double the number of unemployed since 2007
 - Nearly half have been out of work for more than half a year
- Significantly less dynamic labor market
 - Hires are 75% of pre-recession levels (4m vs. 5.3m/month)
 - Job openings were slashed in half (2m vs. 4.7m/month)
 - Voluntary quits are 66% of pre-recession levels (1.9m v. 3m/month)
 - Layoffs and discharges are slightly lower (1.7m/month)
 - % increase in GDP does not create as many jobs as before
- Left with a pool of unemployed with record low job openings
- Job openings are now trending up but hires are flat
 - Smaller firms may have difficulty obtaining financing
 - Corporations stopped hiring and started amassing cash, while accumulating record profits
 - Confidence is high among corporations but not consumers, as profits trump jobs and the housing market slump dampens perceived wealth

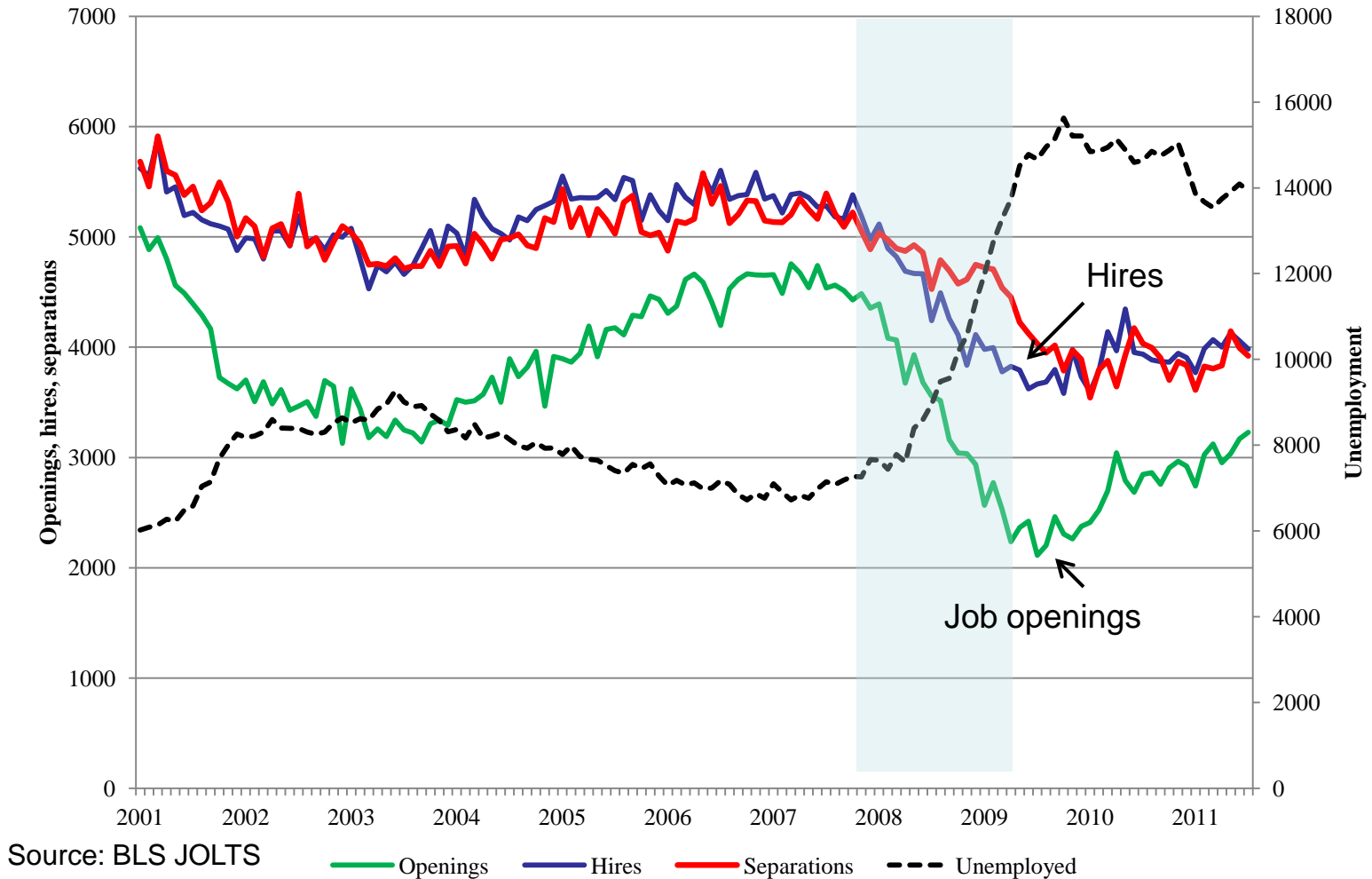
How did we get here?

Unemployment rolls swelled by as much as 9.5 million people since the beginning of the recession, and since the beginning of the decade



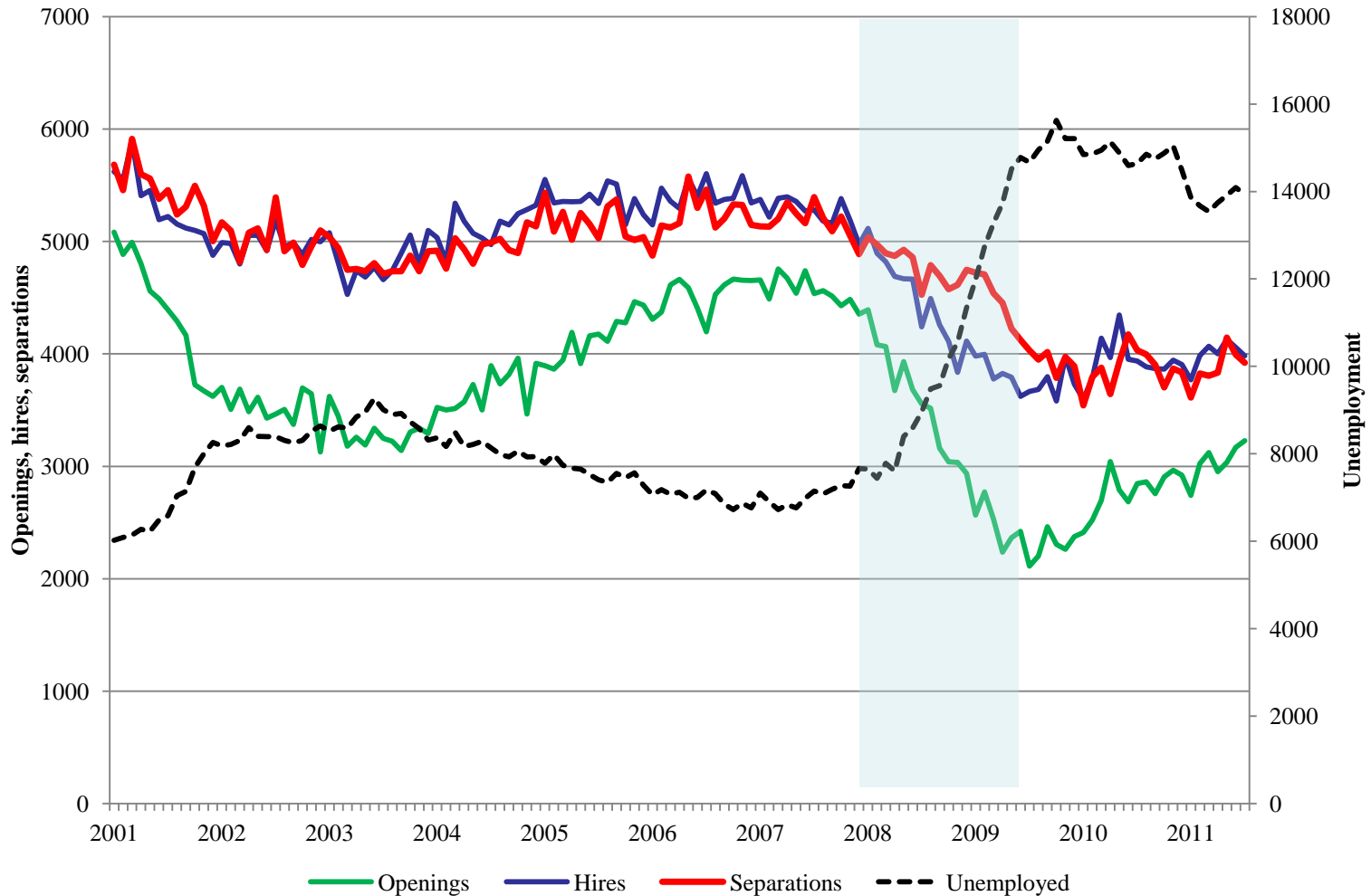
Employment steadily increased in the middle of the decade but dropped sharply by 8.7 m during the recession, ending the decade 1.3 million workers short

Hires and job openings were the first to turn south...



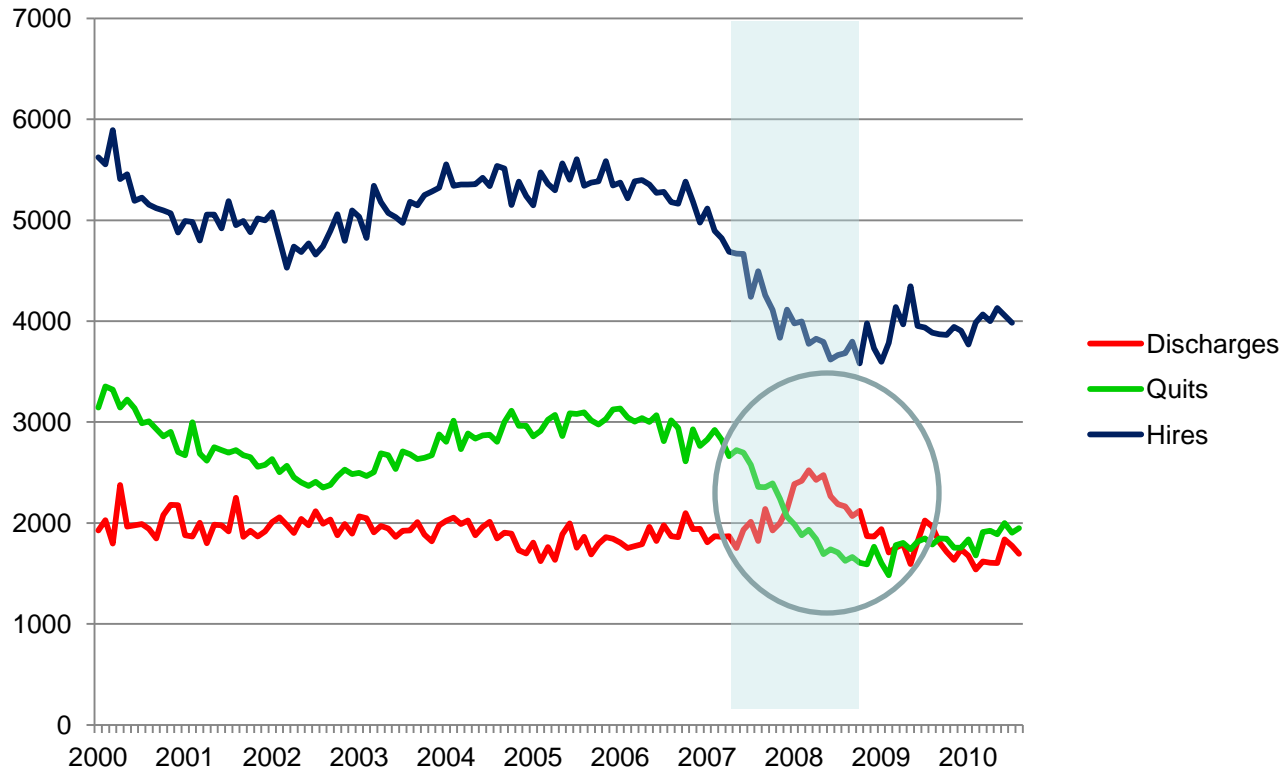
...11 months into the recession both hit record lows since 2001.

Job separations started to decline but not as quickly...



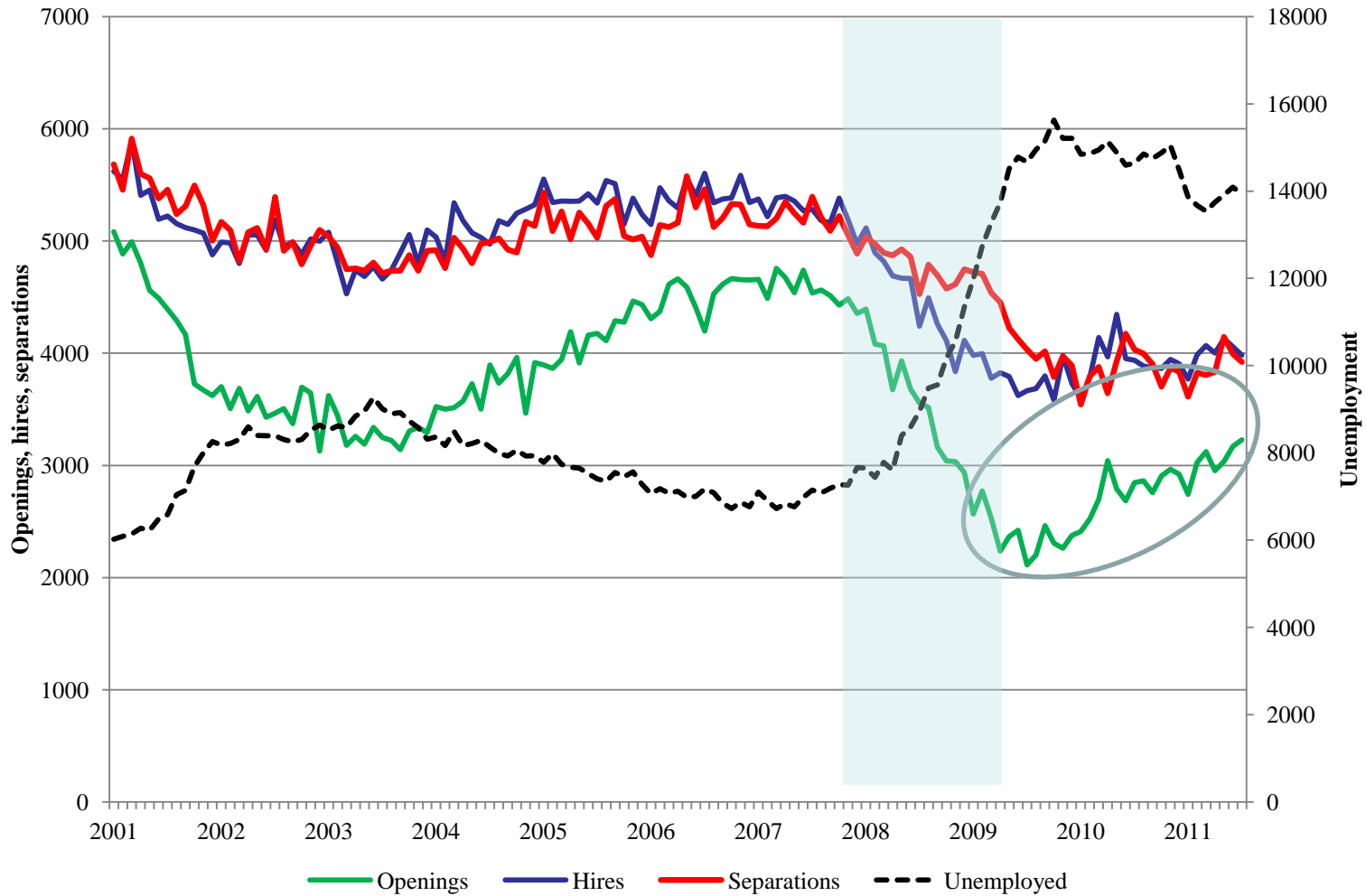
...the gap between hires and separations accounted for the additional 8.5 million unemployed between 2008 and 2010.

Job separations due to layoffs and discharges blipped up briefly, accounting for about 4.2 million unemployed, and then returned to its longer run trend. Quits, however, fell and remain more than a million less per month than before.



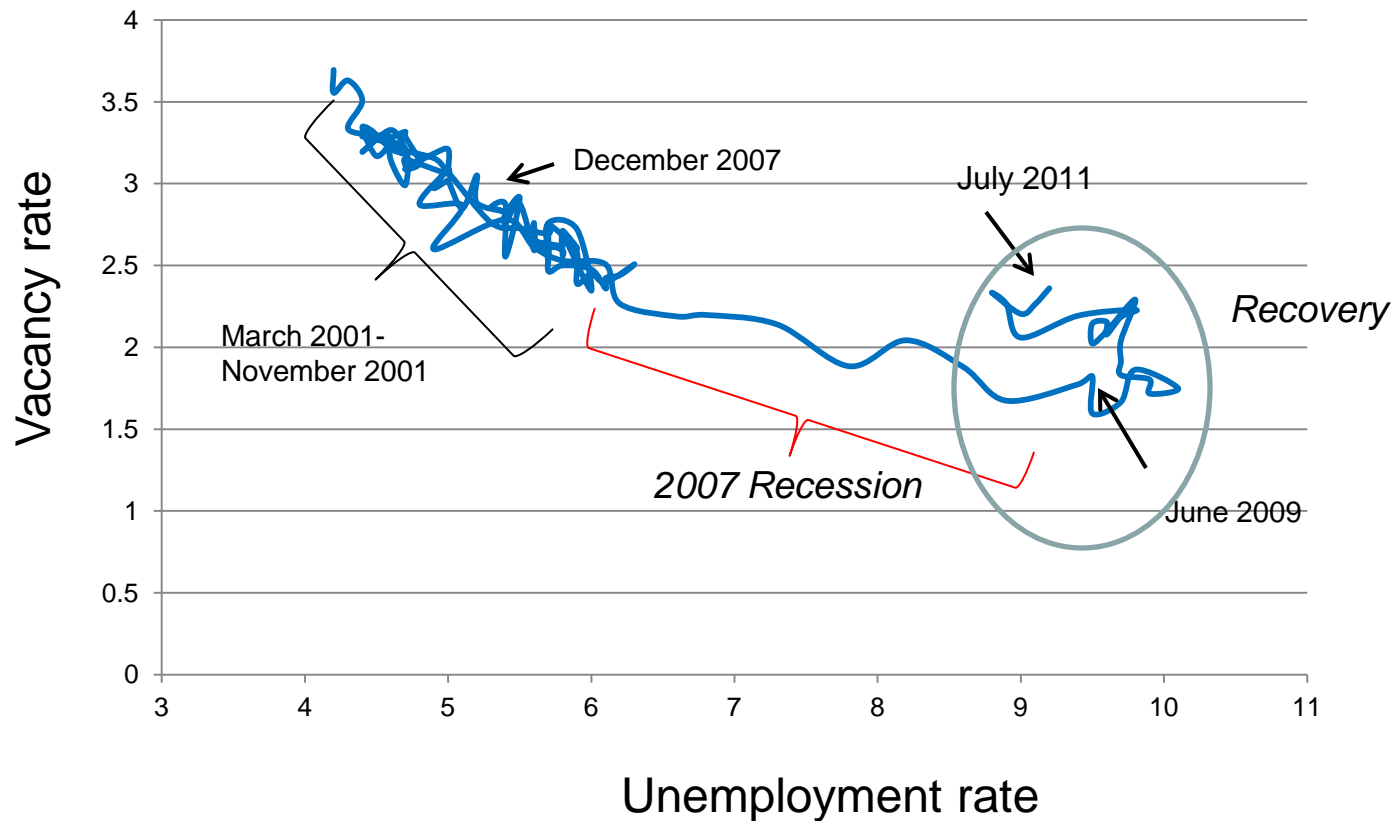
The reduction in voluntary quits reflects the decline in hires and consequently the lack of confidence of workers in finding job opportunities beyond the job they currently hold.

At the beginning of the recovery, openings started to trend upward...



...but hires have stayed relatively flat.

WE'RE STUCK! Even though the vacancy rate has increased, hires are flat and the unemployment rate is stuck around 9 plus percent. In the previous 2001 recession, an increase in vacancy rates reduced the unemployment rate at a pace of more than one to one. The same happened going into the 2007 recession, but not coming out.



Why aren't firms hiring?

- Structural change: mismatch of skills?
 - Reduced mobility of workers because of negative home equity
 - Increased duration of unemployment atrophies skills
 - Evidence suggests that recession is more cyclical than structural
- Disincentives?
 - Extended UI benefits (studies suggest that it could explain between 0.7 to 1.8 ppts of the 5.5 ppts increase in UR rate)
- Poorly trained workforce? Lack of job search skills for those longer-term unemployed?
- Cost of labor?
 - Unit labor costs have increased 4+% in 2008,2009, but fell 4% in 2010
- Firm size? Are small businesses having a tougher time?
 - Patterns of job openings and hires the same for establishments of all sizes

Uphill battle...it takes more GDP growth today to generate the same number of jobs

| Time Period | Net total employment change (Million) | Increase in total employment (%) | Real GDP annual growth rate (%) | Ratio of employment growth to GDP growth |
|--------------------|--|---|--|---|
| 1970s | 20.6 | 26 | 3.2 | 8.1 |
| 1980s | 19.5 | 20 | 3.2 | 6.3 |
| 1990s | 18.1 | 15 | 3.4 | 4.4 |
| 2000-2007 | 9.2 | 7 | 2.4 | 2.9 |
| 2000-2010 | 2.2 | 2 | 1.7 | 1.2 |

Source: BEA and BLS

Labor requirements continue to decline. Labor requirement of \$1 of output has decreased over the past 10 years for 90% of the three-digit industries.

What works and what doesn't?

Blunt Approach--General Stimulus

- Fiscal stimulus: Tax cuts? Spending increases?
- Expensive: \$95,000-\$145,000 per job
 - Roughly the amount of GDP/employee--\$105,000
- Potentially ineffective
 - Debate rages whether fiscal stimulus (budget deficit) leads to crowding out of private investment through higher interest rates resulting from increased borrowing
 - Consumers anticipate higher taxes later on to pay for deficit spending today (Ricardian Equivalence)
 - However, conventional economist's view is that fiscal stimulus works in a period in which economy is in a liquidity trap, like now
- State/local area tax cuts to attract and expand business
 - Present value of state tax cuts \$206,000 per job

Recent studies of the overall effect of ARRA show a positive effect on employment, although the estimates vary

| Study | Job gain/save estimate |
|-------------------------------------|--|
| Bernstein and Romer (2009) | 3.6 million jobs |
| CBO (2011) | 0.5-0.9 million in 2009 1.3-3.3 million in 2010 0.9-2.7 million in 2011 0.4-1.1 million in 2012 |
| Council of Economic Advisers (2009) | 3.6 million by 2010:Q2 |
| Blinder and Zandi (2010) | 2.7 million |
| Wilson (2010) | 0.8 million by October 2010 |
| Feyrer and Sacerdote (2010) | 0.8-1.9 million |
| | |

8 million jobs @ \$814 billion = \$101,740/job

Targeted Approach--Job Creation Tax Credit

- More targeted approach to creating jobs
 - Not trying to push the entire economy, only new jobs in some firms
- Proposed by Bartik and Bishop
- Refunds 15% of additional taxable payroll first year and 10% the second year
 - Similar to American Jobs Act but more than twice the subsidy
- Credit is paid on increases in payroll
 - new jobs or wage increases relative to a prior year
 - subject to Social Security taxes (threshold is \$106,800)
- All businesses are eligible
- Impact:
 - 2.8 million jobs in first year at a net cost of \$13 billion (\$4600/job)
 - 2.3 million jobs in the second year costing \$14 billion (\$6300/job)

How do we know it will work?

- Evidence based on evaluations of 1977-78 new jobs tax credit
- NJTC passed by Congress in response to 1975-77 recession
 - \$7,000 per hire (in today's dollars) or 14% of average US wages and salaries
 - Credit was capped by not letting businesses claim more than \$100,000 in credits, or 48 employees
- Evaluations show that 700,000 jobs were created after a year
- When the subsidy ended, new hires were retained and those who quit were replaced
 - Induced employers to expand now instead of later to smooth out the effects of recession on employment
- More effective/less expensive than stimulus
 - Focuses on job creation with multiplier and productivity effects
- More effective than straight payroll tax reduction

Are Employers so Inclined to Hire?

- How do we know employers will respond to lower wage costs by hiring?
 - Since payroll tax is paid quarterly, the tax credit offers firms cash on regular basis
 - Firms that have demand for their output but face difficulty getting working capital (small firms), get immediate assistance
 - Large firms with cash buildup because of uncertainties can keep the cushion while still hiring
 - The additional jobs induced by the tax credit will tend to increase demand for output, similar to a payroll tax “holiday”
 - Firms may see this is a way of investing in workers for the future
- Even if we cut the estimate of the effect of reducing labor costs on new hires in half, 2.5 million jobs could be created at a net cost of \$28,000 per job, compared to 6 million at a cost of \$5,200 per job

Addressing skill mismatch

- What if employers want to hire but cannot find skilled workers?
 - Job openings have trended up but new hires are flat
 - Have the skills of longer term unemployed become out-dated?
- Training
 - Evaluations of training show mixed results; however OJT appears to be more effective than classroom training for certain groups of individuals
- Combine training with wage subsidies
 - Evaluations of wage-subsidy programs targeting specific populations suggest that combining training with wage subsidies improves the probability of employment
 - Suggests that wage subsidy programs combined with training could be targeted to longer-term unemployed and youth

Improve Re-entry into Work

Work Sharing

- Work sharing attempts to reduce layoffs by compensating a larger number of workers with partial unemployment insurance benefits in place of a total layoff for a smaller number of workers.
- Workers can stay attached to employer and continue to build skills
- Work sharing is common in Europe and in use in 23 states.
- Work sharing reduces unemployment in cases where layoffs are temporary.
 - Reduces atrophy of skills and difficulties re-entering labor force

Enhanced Job Search Assistance

- Evaluations have shown that providing a **comprehensive** package of job search assistance (orientation, assessment, testing, counseling, follow-up services) can reduce the duration of unemployment at low cost
- Worker profiling and reemployment bonuses may also be useful in targeting services and incentivizing people to intensively search for work
 - Search more intensively at beginning of unemployment spell and motivate people to take jobs

Self Employment Assistance

- SEAP allows unemployed workers receiving UI assistance to pursue self-employment rather than wage and salary employment, and participants receive self-employment allowances and entrepreneurial training.
- Only seven states have programs and they are small in size, in part, because of administrative obstacles and lack of availability of entrepreneurial training.
- Evaluations indicate:
 - Only a small proportion of UI recipients are interested
 - Self employment assistance increased participants' annual time in self-employment and annual earnings (1.1-1.9 months longer than control group and 0-\$6000 annual earnings)

Debatable whether the AJA is a stimulus bill, since everything is supposedly paid for with offsets...but there are items that shift funds to encourage firms to hire and to help workers find jobs

| | AJA | | ARRA | (two years) |
|--------------------------|-------|---|-------|---|
| Tax cuts | \$175 | Cut employer payroll tax | \$250 | Working individuals, First time homebuyers, energy incentives |
| | | Cut employee payroll taxes in half | | Business incentives (loss carryovers, etc.) |
| Employer payroll tax cut | 73 | | 37 | WOTC |
| New job tax credit | 5 | Bonus payroll cut for new jobs/wages | | |
| Support S&L Gov't Jobs | 35 | | 85 | State fiscal stabilization |
| Infrastructure | 105 | Schools, highways, housing, wireless | 55 | Infrastructure, transportation |
| Project Rebuild | | Putting construction workers to work building/rehab homes | | |
| UI Reform & Extension | 54 | Work sharing, self-employment, JSA | 61 | UI modernization |
| Other | 0 | | 362 | Energy, environment , Medicaid, Medicare, health |
| Total | \$447 | 3% of GDP | \$840 | 23 |

What can States/Local Areas Do?

- State wage subsidy programs
 - Few states in financial position to fund such programs
- Combine training with existing job creation programs
- Training, particularly On-the-job Training
- Internships/apprenticeships
 - Georgia Work\$
- Enhanced job search assistance
- Improve partnerships: business, education, and workforce
- Working Sharing
- Self Employment Assistance
 - Shift some UI funds to self-employment assistance
- Empowerment zones—targeted tax breaks and public

Summary

- The economy needs jobs...lots more
- ARRA more than likely helped to stem the loss of jobs but did not do enough
- The American Jobs Act provides a combination of new jobs tax incentives, JSA, self-employment assistance, and UI innovations
- Evaluations show that many of these interventions are effective in creating jobs and putting people back to work
- But the size of the AJA (3% of GDP) may not be enough
 - Moreover, relatively little is set aside for new jobs tax credits, which may be the most potent of the measures in AJA
- Combination of new job tax credit to create jobs, training for those filling the position, and JSA to aid in the search could be most effective